

November 8, 1999

The Honorable James H. Hodges, Governor  
and  
Members of the Board of Trustees  
Winthrop University  
Rock Hill, South Carolina

This report on the audit of the financial statements of Winthrop University for the fiscal year ended June 30, 1999, was issued by J. W. Hunt & Company, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

Thomas L. Wagner, Jr., CPA  
State Auditor

TLWjr/cwc

WINTHROP UNIVERSITY  
ROCK HILL, SOUTH CAROLINA

INDEPENDENT AUDITORS' REPORT  
JUNE 30, 1999

WINTHROP UNIVERSITY  
ROCK HILL, SOUTH CAROLINA

TABLE OF CONTENTS

June 30, 1999

	<b><u>EXHIBIT</u></b>	<b><u>PAGE</u></b>
<b>I.    <u>INDEPENDENT AUDITORS' REPORT</u></b>		3-4
<b>II.   <u>BASIC FINANCIAL STATEMENTS</u></b>		
Balance Sheet - June 30, 1999	A	6-7
Statement of Changes in Fund Balances - for the Year Ended June 30, 1999	B	8-9
Statement of Current Funds Revenues, Expenditures, and Other Changes for the Year Ended June 30, 1999	C	10-11
Notes to Financial Statements		12-45
<b>III.   <u>REQUIRED SUPPLEMENTARY INFORMATION</u>         <u>(UNAUDITED)</u></b>		
Year 2000		47-48

## I. INDEPENDENT AUDITORS' REPORT

## **INDEPENDENT AUDITORS' REPORT**

Mr. Thomas L. Wagner, CPA, State Auditor  
State of South Carolina  
Columbia, South Carolina

We have audited the accompanying basic financial statements of Winthrop University as of June 30, 1999, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the University's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1 to the financial statements, the accompanying basic financial statements of Winthrop University are intended to present the financial position, changes in fund balances, and current funds revenues, expenditures and other changes of only that portion of the funds of the State of South Carolina financial reporting entity that is attributable to the transactions of Winthrop University, an institution of the State of South Carolina. These financial statements do not include other agencies, institutions, or departments or component units of the State of South Carolina primary government.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Winthrop University at June 30, 1999, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended in conformity with generally accepted accounting principles.

As discussed in Note 23 to the financial statements, Winthrop University has changed its criteria for determining equipment to be capitalized in the investment in plant funds subgroup.

As discussed in Note 24 to the financial statements, Winthrop University corrected a mathematical error in the reported fair values of investments in prior years by restating beginning fund balances as of July 1, 1998.

(Continued) - 1

These financial statements exclude the related entities described in Note 19 from the reporting entity because the University is not financially accountable for these entities. As part of its affiliated organizations project, the Governmental Accounting Standards Board (GASB) is currently studying other circumstances under which related entities that do not meet the financial accountability criteria would be included in the financial reporting entity.

The Year 2000 supplementary information on pages 45 through 46 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it. Because of the unprecedented nature of the year 2000 Issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Further, we do not provide assurance that the University is or will be a year 2000 ready, that the University's year 2000 remediation efforts will be successful in whole or in part, or that parties with which the University does business will be year 2000 ready.

Columbia, South Carolina  
September 23, 1999

(Concluded) - 2.

## II. BASIC FINANCIAL STATEMENTS

WINTHROP UNIVERSITYBALANCE SHEET, JUNE 30, 1999

<u>ASSETS</u>	<u>1999</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>1999</u>
CURRENT FUNDS:		CURRENT FUNDS:	
UNRESTRICTED:		UNRESTRICTED:	
Cash and cash equivalents (Note 17)	\$ 4,818,283	Accounts payable	\$ 579,708
Accounts receivable:		Accrued interest payable (Note 8)	13,135
State appropriations (Note 2)	2,031,335	Accrued payroll and related liabilities	2,853,514
Students, net (Note 15)	452,097	Unearned student revenues	369,460
Related parties (Note 19)	63,968	Student deposits	319,997
Other receivables	160,836	Accrued compensated absences and related liabilities	1,546,897
Inventories (Note 13)	267,252	Fund balance	2,891,475
Prepaid items	303,969		
Accrued interest receivable	26,446		
Due from other funds (Note 14)	450,000		
Total unrestricted	<u>8,574,186</u>	Total unrestricted	<u>8,574,186</u>
RESTRICTED:		RESTRICTED:	
Cash and cash equivalents (Notes 14, 17)	34,984	Accounts payable	95,399
Federal grants and contracts receivable	553,123	Accrued payroll and related liabilities	77,879
Other grants and contracts receivable	263,035	Accrued compensated absences and related liabilities	38,060
Accrued interest receivable	21,375	Due to other funds (Note 14)	450,000
		Fund balances:	
		Grants and contracts	69,379
		Scholarships and student aid	141,800
Total restricted	<u>872,517</u>	Total restricted	<u>872,517</u>
Total current funds	<u>\$ 9,446,703</u>	Total current funds	<u>\$ 9,446,703</u>
LOAN FUNDS:		LOAN FUNDS:	
Cash and cash equivalents (Note 17)	\$ 127,869	Accounts payable	\$ 59
Federal grants and contracts receivable	88,407		
Loans to students, net (Note 15)	2,391,529	Fund balances:	
		U.S. Government grants refundable	2,547,503
		University funds - restricted	60,243
Total loan funds	<u>\$ 2,607,805</u>	Total loan funds	<u>\$ 2,607,805</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS



WINTHROP UNIVERSITY  
BALANCE SHEET, JUNE 30, 1999

<u>ASSETS</u>		<u>1999</u>	<u>LIABILITIES AND FUND BALANCES</u>		<u>1999</u>
ENDOWMENT AND SIMILAR FUNDS:			ENDOWMENT AND SIMILAR FUNDS:		
Cash and cash equivalents (Note 17)		\$ 683,335	Fund balance:		
			Endowment - restricted		\$ 428,302
			Quasi endowment - restricted		255,033
Total endowment and similar funds		<u>\$ 683,335</u>	Total endowment and similar funds		<u>\$ 683,335</u>
PLANT FUNDS:			PLANT FUNDS:		
UNEXPENDED:			UNEXPENDED:		
Cash and cash equivalents (Note 17)		\$ 899,534	Accounts payable		\$ 417,386
Capital improvement bond proceeds receivable (Note 3)		3,350,000	Retainages payable		540,639
Capital project funds receivable (Note 4)		573,954	Fund balances: (Note 9)		
Accrued interest receivable		6,892	Unrestricted		564,365
Prepaid items		844	Restricted		3,308,834
Total unexpended		<u>4,831,224</u>	Total unexpended		<u>4,831,224</u>
RETIREMENT OF INDEBTEDNESS:			RETIREMENT OF INDEBTEDNESS:		
Cash and cash equivalents (Note 17)		474,927	Accrued interest payable		85,900
Accrued interest receivable		14,421	Fund balances - restricted		414,620
Accrued commission receivable		11,172			
Total retirement of indebtedness		<u>500,520</u>	Total retirement of indebtedness		<u>500,520</u>
INVESTMENT IN PLANT:			INVESTMENT IN PLANT:		
Land and improvements		1,131,020	Notes payable (Note 6)		1,435,862
Buildings		68,831,081	Bonds payable (Note 5)		2,891,797
Furniture, fixtures and equipment (Note 1, 8)		5,237,134	Master lease program payable (Note 8)		1,903,089
Library books		8,898,323	Capital lease obligation (Note 7)		139,129
Construction in progress (Note 16)		13,183,623	Net investment in plant		91,079,788
Equipment held under capital lease (Note 7)		168,484	Total investment in plant		<u>97,449,665</u>
Total investment in plant		<u>97,449,665</u>	Total plant funds		<u>\$ 102,781,409</u>
Total plant funds		<u>\$ 102,781,409</u>			
AGENCY FUNDS:			AGENCY FUNDS:		
Cash and cash equivalents (Note 17)		\$ 22,384	Deposits held for others		\$ 22,384
Total agency funds		<u>\$ 22,384</u>	Total agency funds		<u>\$ 22,384</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

WINTHROP UNIVERSITYSTATEMENT OF CHANGES IN FUND BALANCES, FOR THE YEAR ENDED JUNE 30, 1999

	<u>Current Funds</u>			<u>Endowment and Similar Funds</u>	<u>Plant Funds</u>			<u>Totals for the Year Ended June 30, 1999 (Memorandum Only)</u>
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Loan Funds</u>		<u>Unexpended</u>	<u>Retirement of Indebtedness</u>	<u>Investment in Plant</u>	
REVENUES AND OTHER ADDITIONS:								
Unrestricted current fund revenues	\$ 53,672,569	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 53,672,569
State capital reserve funds	-	-	-	-	775,000	-	-	775,000
Federal grants and contracts-restricted	-	14,512,880	46,316	-	-	-	-	14,559,196
State appropriations-restricted	-	2,580,816	-	-	-	-	-	2,580,816
State grants and contracts-restricted	-	1,689,182	-	-	-	-	-	1,689,182
Local grants and contracts-restricted	-	91,462	-	-	-	-	-	91,462
Private gifts, grants and contracts-restricted	-	641,368	-	-	-	-	-	641,368
Interest income-restricted	-	-	46,207	-	21,008	88,950	-	156,165
Endowment income - restricted	-	60,638	-	-	-	-	-	60,638
U.S. Government advances - restricted	-	-	11,395	-	-	-	-	11,395
Expended for plant facilities (including \$1,633,314 charged to current funds expenditures)	-	-	-	-	-	-	9,210,813	9,210,813
Retirement of indebtedness (including \$927,968 charged to current funds expenditures)	-	-	-	-	-	-	1,681,351	1,681,351
Student tuition and fees	-	-	-	-	-	862,723	-	862,723
Other additions	-	-	6,588	-	5,585	745	-	12,918
Total revenues and other additions	53,672,569	19,576,346	110,506	-	801,593	952,418	10,892,164	86,005,596
EXPENDITURES AND OTHER DEDUCTIONS:								
Educational and general expenditures	43,825,783	19,395,725	-	-	-	-	-	63,221,508
Auxiliary enterprises expenditures	7,726,686	-	-	-	-	-	-	7,726,686
Indirect cost recoveries remitted to the State General Fund	59,534	-	-	-	-	-	-	59,534
Indirect costs recovered	-	112,335	-	-	-	-	-	112,335
Refunded to grantors	-	57,642	-	-	-	-	-	57,642
Loan cancellations and write-offs	-	-	51,967	-	-	-	-	51,967
Administrative and collection costs	-	-	6,414	-	-	-	-	6,414
Expended for plant facilities (including noncapitalized expenditures of \$1,367,463)	-	-	-	-	8,776,478	-	-	8,776,478
Capital lease additions	-	-	-	-	168,484	-	-	168,484
Retirement of indebtedness	-	-	-	-	-	753,383	-	753,383
Interest and executory fees on indebtedness	-	-	-	-	-	264,724	-	264,724
Disposal of plant facilities	-	-	-	-	-	-	4,141,112	4,141,112
Reduction resulting from change in asset capitalization policy (Note 23)	-	-	-	-	-	-	7,264,177	7,264,177
Reduction resulting from change in accounting principles regarding student loan receivable (Note 24)	-	-	62,322	-	-	-	-	62,322
Other	-	-	3,207	-	2,411	-	-	5,618
Total expenditures and other deductions	51,612,003	19,565,702	123,910	-	8,947,373	1,018,107	11,405,289	92,672,384

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

## WINTHROP UNIVERSITY

## STATEMENT OF CHANGES IN FUND BALANCES, FOR THE YEAR ENDED JUNE 30, 1999

	Current Funds			Endowment and Similar Funds	Plant Funds			Totals for the Year Ended June 30, 1999 (Memorandum Only)
	Unrestricted	Restricted	Loan Funds		Unexpended	Retirement of Indebtedness	Investment in Plant	
TRANSFERS AMONG FUNDS - ADDITIONS/ (DEDUCTIONS)								
Mandatory:								
Principal and interest	\$ (5,001,467)	\$ -	\$ -	\$ -	\$ -	\$ 5,001,467	\$ -	\$ -
Loan fund matching grants	(3,799)	-	3,799	-	-	-	-	-
Nonmandatory: (Note 9)								
Transfer of funds for capital projects	(500,000)	-	-	-	500,000	-	-	-
Transfers from funds for retirement of indebtedness to unrestricted current funds	4,963,907	-	-	-	168,484	(4,963,907)	(168,484)	-
Transfer between plant funds	-	-	-	-	297,978	(297,978)	-	-
Total transfers	(541,359)	-	3,799	-	966,462	(260,418)	(168,484)	-
NET INCREASE (DECREASE) FOR THE YEAR	1,519,207	10,644	(9,605)	-	(7,179,318)	(326,107)	(681,609)	(6,666,788)
BEGINNING FUND BALANCE - JULY 1, 1998, AS RESTATED (NOTE 24)	1,372,268	200,535	2,617,351	683,335	11,052,517	740,727	91,761,397	108,428,130
ENDING FUND BALANCE - JUNE 30, 1999	\$ 2,891,475	\$ 211,179	\$ 2,607,746	\$ 683,335	\$ 3,873,199	\$ 414,620	\$ 91,079,788	\$ 101,761,342

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

WINTHROP UNIVERSITY

STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES  
FOR THE YEAR ENDED JUNE 30, 1999

	1999			1998
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	Total (as restated)
Revenues:				
Student tuition and fees	\$ 19,086,025	\$ -	\$ 19,086,025	\$ 18,822,392
State appropriations (Note 2)	21,982,640	2,580,816	24,563,456	21,936,434
Other fees (Note 1)	441,921	-	441,921	-
Federal grants and contracts	112,335	14,482,850	14,595,185	14,493,647
State grants and contracts (Notes 2 and 20)	-	1,571,740	1,571,740	1,636,463
Local grants and contracts	-	91,462	91,462	79,070
Private gifts, grants, and contracts	213,955	612,581	826,536	763,483
Interest income	99,672	-	99,672	45,055
Endowment income	-	60,638	60,638	59,187
Sales and services of educational departments	1,450,865	-	1,450,865	1,382,637
Sales and services of auxiliary enterprises	9,323,578	-	9,323,578	9,266,157
Sales and services of athletic and related events	673,244	-	673,244	404,324
Sales by student organizations	76,907	-	76,907	56,964
Payment plan fees	104,535	-	104,535	98,523
Other sources	106,892	-	106,892	288,726
Total current revenues	<u>53,672,569</u>	<u>19,400,087</u>	<u>73,072,656</u>	<u>69,333,062</u>
Expenditures and mandatory transfers:				
Educational and general:				
Instruction	18,321,282	307,400	18,628,682	18,114,509
Research	21,751	217,949	239,700	234,522
Public service	1,366,491	2,190,581	3,557,072	3,141,102
Academic support	5,299,161	1,781	5,300,942	4,819,333
Student services	5,294,526	-	5,294,526	5,005,494
Institutional support	5,653,468	-	5,653,468	5,471,886
Operation and maintenance of plant	4,818,307	-	4,818,307	4,780,787
Scholarships and fellowships	3,050,797	16,682,376	19,733,173	18,123,403
Total educational and general expenditures	<u>43,825,783</u>	<u>19,400,087</u>	<u>63,225,870</u>	<u>59,691,036</u>
Mandatory transfers for:				
Loan fund matching grants	3,799	-	3,799	4,347
Total mandatory transfers	<u>3,799</u>	<u>-</u>	<u>3,799</u>	<u>4,347</u>
Total educational and general	<u>43,829,582</u>	<u>19,400,087</u>	<u>63,229,669</u>	<u>59,695,383</u>

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

WINTHROP UNIVERSITY  
 STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES AND OTHER CHANGES  
 FOR THE YEAR ENDED JUNE 30, 1999

	1999			1998
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>	Total (as restated)
Expenditures and mandatory transfers (Continued):				
Auxiliary enterprises:				
Housing expenditures	\$ 4,449,071	\$ -	\$ 4,449,071	\$ 4,430,290
Health services expenditures	752,947	-	752,947	645,210
Food service expenditures	2,440,733	-	2,440,733	2,267,567
Vending expenditures	83,935	-	83,935	481,420
Total auxiliary enterprises expenditures	7,726,686	-	7,726,686	7,824,487
Mandatory transfers for principal and interest	5,001,467	-	5,001,467	4,704,886
Total auxiliary enterprises	12,728,153	-	12,728,153	12,529,373
Total expenditures and mandatory transfers	56,557,735	19,400,087	75,957,822	72,224,756
Other transfers and additions/(deductions):				
Nonmandatory transfers in	4,963,907	-	4,963,907	4,670,470
Nonmandatory transfers out	(500,000)	-	(500,000)	(500,000)
Excess (deficiency) of restricted receipts over transfers to revenues	-	68,286	68,286	(29,126)
Refunded to grantors	-	(57,642)	(57,642)	(51,524)
Indirect cost recoveries remitted to the State General Fund	(59,534)	-	(59,534)	(45,154)
Total other transfers and additions	4,404,373	10,644	4,415,017	4,044,666
Net increase in fund balances	\$ 1,519,207	\$ 10,644	\$ 1,529,851	\$ 1,157,334

THE ACCOMPANYING NOTES ARE AN INTEGRAL PART OF THESE FINANCIAL STATEMENTS

# **WINTHROP UNIVERSITY**

## **NOTES TO FINANCIAL STATEMENTS**

**June 30, 1999**

---

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies of Winthrop University (the "University") conform to generally accepted accounting principles (GAAP) applicable to the governmental colleges and universities model as defined in the American Institute of Certified Public Accountants (AICPA) *Audits of Colleges and Universities Industry Audit Guide* recognized by the Governmental Accounting Standards Board (GASB). GASB is the recognized standard-setting body for GAAP for all state governmental entities including colleges and universities. Those Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, are authoritative provided they do not contradict or conflict with GASB guidance. However, GAAP prohibits the application of FASB guidance by governmental colleges and universities after that date. A summary of significant accounting policies follows.

#### **Reporting Entity**

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all of its component units. Component units are legally separate organizations for which the elected officials of the primary government are financially accountable. In turn component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity. The University has determined it has no component units and the financial reporting entity includes only the University (a primary entity).

A primary government or entity is financially accountable if its officials or appointees appoint a voting majority of an organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary government or entity that holds one or more of the following powers:

- (1) Determines its budget without another government's having the authority to approve and modify that budget.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Reporting Entity (Continued)**

(2) Levies taxes or sets rates or charges without approval by another government.

(3) Issues bonded debt without approval by another government.

The organization is fiscally independent if it holds all three of those powers. Based on these criteria, the University has determined it is not a component of another entity and it has no component units. This financial reporting entity includes only the University (a primary entity).

The University is a State-supported, co-educational institution of higher education. The University is granted an annual appropriation for operating purposes as authorized by the South Carolina General Assembly. The appropriation as enacted becomes the legal operating budget for the institution. The Appropriation Act authorizes expenditures from funds appropriated from the General Fund of the State and authorizes expenditures of total operating funds. The laws of the State and the policies and procedures specified by the State for State agencies and institutions are applicable to the activities of the University. The University was established as an institution of higher education by Section 59-125-10 of the Code of Laws of South Carolina. The University's campus is located in Rock Hill, South Carolina. The University is part of the primary government of the State of South Carolina and its funds are reported in the State's higher education funds in the Comprehensive Annual Financial Report of the State of South Carolina. Generally all State departments, agencies, and colleges are included in the State's reporting entity. These entities are financially accountable to and fiscally dependent on the State. Although the State-supported universities operate somewhat autonomously, they lack full corporate powers. In addition, the Governor of the State and/or the General Assembly appoints most of their board members and budgets a significant portion of their funds.

The Board of Trustees is composed of the Governor and the State Superintendent of Education, or their designees, who are members ex officio; seven other member, each elected by the joint vote of the General Assembly; two graduates of the University to be appointed by the Winthrop University Alumni Association; and one at-large trustee appointed by the Governor. The Chair of the Faculty Conference and the President of the Student Government Association serve as invited members without voting rights. The Board is responsible for the scope of educational programs, policy or eligibility for enrollment, and other policy matters. The Board administers, has jurisdiction over, and is responsible for the management of the University.

The accompanying financial statements present the financial position, the changes in fund balances, and the current funds revenues, expenditures, and other changes of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the University.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Basis of Accounting**

The financial statements of the University have been prepared on the accrual basis except that, in accordance with accounting practices customarily followed by governmental educational institutions, no provision is made for depreciation of physical plant assets, interest on loans to students is recorded when collected, and revenue from tuition and student fees for summer sessions is reported totally within the fiscal year in which the session is primarily conducted. Otherwise, revenues are reported in the accounting period when earned and become measurable and expenditures when materials or services are received or when incurred, if measurable. Unrestricted state appropriations are recognized as revenue when received or made available. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. The statement does not purport to present the results of operations or the net income or loss for the period as would a statement of income or a statement of revenue and expenses.

Mandatory transfers are limited to those arising out of binding legal arrangements related to financing the educational plant (e.g., construction, repairs, debt amortization, and interest); agreements to match gifts and grants; or required matching of certain federal loan programs. All other interfund transfers are reported as nonmandatory transfers.

To the extent that current funds are used to finance plant assets, the amounts so provided are accounted for as (1) expenditures, in the case of alterations and renovations and purchases and normal replacement of movable equipment and library books; (2) mandatory transfers in the case of required provisions; and (3) transfers of a nonmandatory nature in all other cases.

### **Fund Accounting**

Fund accounting is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives in accordance with limitations and restrictions imposed by sources outside the institution or in accordance with directions issued by the governing board. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund groups and subgroups. Accordingly, all financial transactions have been recorded and reported by fund group and subgroup.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds allocated to specific purposes by action of the governing board. Externally restricted funds may be utilized only in accordance with the purposes established by the source of such funds and are in contrast with unrestricted funds, over which the governing board retains full control to use in achieving any of its institutional purposes.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**



### **Fund Accounting (Continued)**

All realized gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owns such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets, except for income derived from investments of endowment and similar funds which is accounted for in the fund to which it is restricted or, if unrestricted, as revenue in unrestricted current funds, except for certain quasi-endowment income which is required to be added to the principal or when the endowment agreement requires the income to be added to the corpus. If there is income to be added to corpus, the University records a mandatory transfer to move these monies to the endowment fund group.

All other unrestricted revenues are accounted for in unrestricted current funds. Restricted gifts, grants, appropriations, endowment income, and other restricted resources are accounted for in the appropriate restricted funds.

The **Current Funds** group includes those economic resources which are expendable for operating purposes to perform the primary missions of the University, which are instruction, research, and public service. For a more meaningful disclosure, the current funds are divided into two subgroups: unrestricted and restricted. Separate accounts are maintained for auxiliary enterprises operations. Current funds are considered unrestricted unless the restrictions imposed by the donor or other external agency are so specific that they substantially reduce the University's flexibility in their utilization. Unrestricted gifts are recognized as revenue when received and other unrestricted resources are recorded as revenue when earned. Receipts that are restricted are recorded initially as additions to restricted fund balances and recognized as revenue to the extent that such funds are expended for the restricted purposes during the current fiscal year and met all related requirements.

**Current Funds Auxiliary Enterprises** are essentially self-supporting business entities and activities that exist for the purpose of furnishing goods and services primarily to students, faculty, staff, or departments and for which charges are made that directly relate to such goods and services. Revenue and expenditures are reported separately as unrestricted current funds. Assets, liabilities, and fund balances are combined with other unrestricted current funds for reporting purposes; however, each separate enterprise maintains its own assets, liabilities, and fund balance. Auxiliary enterprises activities include housing, food service, student health services, and vending operations (which includes student long-distance telephone services and the bookstore). The portion of the University's unrestricted current funds balance related to its auxiliary enterprises was \$1,975,906 at June 30, 1999.

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Fund Accounting (Continued)**

**The Loan Funds** group accounts for the resources available for loans to students from donors, government agencies, and mandatory institutional matching grants. Loan funds have been divided into those provided by the federal government and those provided by other sources. Expenditures include costs of loan collections, loan cancellations and collectibility reserves, and administrative

costs under the federal loan programs. To the extent that current funds are used to meet required provisions for grant matching, they are accounted for as mandatory transfers. The University has \$25,000 on deposit with the United Student Aid Funds, Inc., as a guarantee against student loan defaults. This loan participation deposit is included in the balance sheet as cash and cash equivalents.

The **Endowment and Similar Funds** group includes endowment funds and funds functioning as endowments (quasi-endowment). Endowment funds are subject to the restrictions of gift instruments requiring in perpetuity that the principal be invested and the income only be utilized. All of the University's endowments require the income to be used for specified purposes. While quasi-endowment funds have been established by the governing board for the same purposes as permanent endowment funds, subject to any restrictions imposed by the donor of the resources, any unrestricted portion of the principal as well as income may be expended at the discretion of the governing board. The term "principal" is construed to include the original value of an endowment and subsequent additions and realized gains/losses attributable to investment transactions.

The **Plant Funds** group consists of three self-balancing subgroups: (1) unexpended plant funds, (2) funds for retirement of indebtedness, and (3) investment in plant. The unexpended plant funds subgroup accounts for the resources derived from various sources (and any debt related to unexpended resources) to finance major repair and renovation projects, to finance the acquisition of long-life assets and to provide for routine renewal and replacement of existing plant assets. The retirement of indebtedness subgroup accounts for resources that are specifically assessed and/or specifically accumulated for interest and principal payments, debt service reserve funds, and other debt service charges related to plant fund indebtedness. The investment in plant subgroup accounts for all long-life assets in the service of the University, all construction in progress, and related debt for funds borrowed and expended for the acquisition of plant assets included in this fund subgroup. Net investment in plant represents the excess of the carrying value of plant assets over the related liabilities. Receipts legally designated solely for plant improvements or renewals and replacements are recorded directly in the University's plant funds as revenue.

The **Agency Funds** group accounts for the assets held on behalf of others in the capacity of custodian or fiscal agent; consequently, transactions relating to agency funds do not affect the operating statements of the University. They include the accounts of students, student organizations, and other groups directly associated with the University.

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, and expenditures/expenses and affect disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates.

### **Indirect Cost Recoveries**

The University records restricted current funds revenue for governmental grants and contracts in amounts equal to direct costs incurred. The University reports as unrestricted revenue recoveries of indirect costs applicable to government sponsored programs at negotiated fixed rates for each year. The recoveries are also recorded as additions and deductions of restricted current funds. Indirect cost recoveries must be remitted to the State General Fund except those received under research and student aid grants which may be retained by the University. Also, after January 1, 1999, federal grants and contracts whose annual award is \$200,000 or less are exempted from the requirement to remit recoveries to the State General Fund.

### **Compensated Absences**

Generally all permanent full-time State employees and certain part-time employees scheduled to work at least one-half of the agency's workweek are entitled to accrue and carry forward at calendar year-end maximums of 180 days sick leave and of 45 days annual vacation leave. This policy also applies to 12-month faculty and 9-month staff, whereas part-time faculty are not entitled to sick or annual leave benefits. Upon termination of State employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum, but are not entitled to any payment for unused sick leave.

The compensated absences liability includes accrued annual leave for which the employees are entitled to paid time off or payment at termination. The University calculates the compensated absences liability based on recorded balances of unused leave for which the employer expects to compensate employees through paid time off or cash payments at termination. That liability is inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments and is recorded in unrestricted and restricted current funds. The net change in the liability is recorded in the current year in the applicable current funds functional expenditure categories.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Investment in Plant**

Physical plant and equipment, except for plant assets acquired prior to June 30, 1981, and equipment acquired under capital lease, are stated at cost at the date of acquisition or fair market value at the date of donation in the case of gifts. Plant assets acquired prior to June 30, 1981, are stated at historical cost when determinable or at estimated historical cost. Equipment additions purchased through capital leases or installment purchase contracts are capitalized in the investment in plant funds subgroup in the year of acquisition at their total cost, excluding interest charges. Equipment under capital leases and installment agreements is stated at the lower of the present value of minimum lease payments, including the downpayment, at the beginning of the lease term or fair value at the inception of the lease. Payments of principal and interest on such contracts are recorded in the applicable educational and general expenditure categories of the current funds group as the installments are paid.

Infrastructure assets include streets, sidewalks, parking lots, drainage systems, lighting systems, utility systems, and similar assets that are immovable and of value only to the University, which reports these assets as land improvements and values them at cost.

Library books, periodicals, microfilms and other library materials on computer data storage devices are recorded at cost or fair market value at the date of donation. Current funds expenditures for acquisition of capital assets are simultaneously recorded in both the current funds expenditure accounts of the various operating departments and in the investment in plant funds subgroup.

The University capitalizes major additions and renovations to plant assets and qualifying equipment with a unit value in excess of \$5,000 and a useful life in excess of one year. Construction expenditures are recorded at cost in the unexpended plant funds when incurred and simultaneously capitalized at total expenditures less noncapitalized costs as construction in progress in the investment in plant funds subgroup.

When construction projects are substantially complete and ready for use, construction in progress costs are reclassified to the appropriate plant asset accounts.

When plant assets are sold, retired, or otherwise disposed of, the carrying value at cost, estimated historical cost, or fair market value at date of gift, where applicable, is removed from the investment in plant subgroup. The values of library materials are removed annually at average cost per general type of library media. In accordance with practices followed by governmental educational institutions, depreciation on physical plant and equipment is not recorded.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Capitalized Interest**

The University capitalizes as a component of construction in progress interest cost in excess of earnings on debt associated with the capital projects. Therefore asset values in the investment in plant subgroup do include such interest costs. The University had no interest cost qualifying for capitalization in fiscal 1999.

### **Unearned Student Revenues**

In unrestricted current funds, unearned student revenues consist primarily of student tuition and fees and room and board collected in advance for the summer and fall academic terms. Revenues are recognized in the period in which the sessions are predominantly conducted and services are provided or the semester for which the fee is applicable and earned.

### **Student Deposits**

Student deposits represent dormitory room and apartment deposits, admission deposits and security deposits for possible room damage. Student deposits are recognized as revenue during the semester for which the fee is applicable and earned when the deposit is nonrefundable to the student under the terms of the agreement.

### **Fee Waivers**

Student tuition and fees revenues include all such amounts assessed against students (net of refunds) for educational purposes even in those cases in which there is no intention of collection. These revenue amounts are offset by equal expenditures. The amounts of such remissions or waivers are recorded and classified as scholarships and fellowships expenditures or as staff benefits in the applicable current funds functional expenditure categories. State law provides that educational fee waivers may be offered to no more than two percent of the undergraduate student body.

### **Other Fees**

Other fees generally consist of revenue resulting from occasional or one-time fees that don't directly relate to the cost of instruction such as fees for student applications, fines and orientation.

### **Educational Departments Revenue**

Revenues from sales and services of educational activities generally consist of amounts received from instructional, laboratory, research, and public service activities that incidentally create goods and services which may be sold to students, faculty, staff, and the general public. The University receives such revenues primarily from public service activities.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Prepaid Items**

Expenditures for insurance and similar services paid for in the current or prior fiscal years and benefiting more than one accounting period are allocated among accounting periods. For the University, amounts reported in this asset account consist primarily of prepaid insurance, maintenance and service agreements, travel reservations and deposits, and library periodicals.

### **Cash and Cash Equivalents**

The amounts shown in the financial statements as "cash and cash equivalents" represent petty cash and other cash on hand, cash on deposit in banks, cash on deposit with the State Treasurer, and cash invested in various instruments by the State Treasurer as part of the State's internal cash management pool, and cash invested in various short-term instruments by the State Treasurer and held in separate agency accounts.

Most State agencies including the University participate in the State's internal cash management pool. Because the cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The State Treasurer administers the cash management pool. The pool includes some long-term investments such as obligations of the United States and certain agencies of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. For credit risk information pertaining to the State's internal cash management pool, see the deposits disclosures in Note 17.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each fund's equity interest in the general deposit account; however, all earnings on that account are credited to the General Fund of the State. The University records and reports its deposits in the general deposit account at cost. Whereas, it reports its deposits in the special deposits account at fair value. Investments in the pool are recorded at fair value. Interest earned by the University's special deposit accounts is posted to its account at the end of each month and is retained. Interest earnings are allocated based on the percentage of the University's accumulated daily income receivable to the total income receivable of the pool. Reported interest income includes interest earnings, realized gains/losses, and unrealized gains/losses arising from changes in fair value of investments in the pool. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the University's percentage ownership in the pool.

Some State Treasurer accounts are not included in the State's internal cash management pool because of restrictions on the use of the funds. For those accounts, cash equivalents include investments in short-term, highly liquid securities having an initial maturity of three months or less.

## **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

### **Rebatable Arbitrage**

Arbitrage involves the investment of proceeds from the sale of tax-exempt securities in a taxable investment that yields a higher rate, resulting in income in excess of interest costs. Federal law

requires entities to rebate to the government such income on tax-exempt debt if the yield from those earnings exceeds the effective yield on the related tax-exempt debt issued. Governmental units may avoid the requirement to rebate the “excess” earnings to the federal government under certain circumstances, if they issue no more than \$5 million in total of all such debt in a calendar year or if they meet specified targets for expenditures of the proceeds and interest earnings thereon. For this purpose, tax-exempt indebtedness includes bonds and certain capital leases and installment purchases. The federal government only required arbitrage be calculated, reported, and paid every five years or at maturity of the debt, whichever is earlier. The expenditure and liability, if any, are recorded in the retirement of indebtedness subgroup. The University had no rebatable arbitrage for the periods presented.

### **Intraentity Transactions and Balances**

Transactions that would be treated as revenues or expenditures if they involved organizations external to the University are accounted for as revenues and expenditures in the funds involved. Reimbursement transactions for expenditures initially made by one fund that are applicable to another are recorded as expenditures in the reimbursing fund. Expenditures initially made by the University for related parties or other external parties and reimbursed by those parties are eliminated.

### **Comparative Amounts and Totals Columns**

Amounts in the “Totals (Memorandum Only)” columns of Exhibit B present an aggregation of financial statement line-items to facilitate financial analysis. Such amounts are not comparable to a consolidation and do not present financial information in conformity with GAAP. Interfund eliminations have not been made in the aggregation of this data except expenditure reimbursements.

Comparative amounts and totals for the prior year in the columns of Exhibit C are included to provide a summarized comparison with current year amounts. The prior year totals are not intended to present all the information necessary for a fair presentation in accordance with generally accepted accounting principles.

## **NOTE 2 - STATE APPROPRIATIONS**

The University is granted an annual appropriation for operating purposes as authorized by the General Assembly of the State of South Carolina. State appropriations are recognized as revenue when received and available. Amounts that are not expended by fiscal year-end lapse and are required to be returned to the General Fund of the State unless the University receives authorization from the General Assembly to carry the funds over to the next year.

### **NOTE 2 - STATE APPROPRIATIONS (Continued)**

The original appropriation is the University's base budget amount presented in the General Funds column of section 5L of the 1999 Appropriation Act. The following is a reconciliation of the original appropriation as enacted by the General Assembly to state appropriations revenue reported in the financial statements for the fiscal year ended June 30, 1999:

WINTHROP UNIVERSITY  
NOTES TO FINANCIAL STATEMENTS

---

Original Appropriation	\$ 19,702,578
State Budget and Control Board Allocation for	
Employee Base Pay Increases and Related Employee Benefits	519,163
Appropriation Allocations from the State	
Commission on Higher Education:	
Life Scholarships	1,547,723
Academic Endowment Matching Funds	
(from State Higher Education Matching Gift Fund)	35,929
Access and Equity Desegregation Funding	7,520
Children's Education Endowment Fund For Need-Based Student Grants	632,800
Performance Funding	447,706
Palmetto Fellows Scholarships	282,864
STAR Scholarships	81,500
From Capital Reserve Fund Appropriations	
(June 1998 Joint Resolution) for Institutional Funding	1,185,497
Revised Appropriations - Legal Basis	\$ 24,443,280
Net Accrual Funding for Payroll Expenditures State Appropriation Revenue	120,176
State Appropriations Revenue - Accrual Basis - unrestricted current funds	24,563,456
Unrestricted - Current Funds	\$ 21,982,640
Restricted - Current Funds	2,580,816
	<u>\$ 24,563,456</u>

The University received \$844,331 of state appropriations revenue in 1998 for higher education grant/scholarship funding which was reported in the restricted current fund. For 1999, the restricted current fund reports \$2,544,887 of this type funding.

Through the State Commission on Higher Education in fiscal year 1999, the University received higher education grant/scholarship funds of \$282,864 for Palmetto Fellows Scholarships and \$632,800 for Need-Based Student Grants, both from the Children's Education Endowment Fund. Also, through the State Commission on Higher Education, the University received \$81,500 of EIA funding for STAR Scholarships. The University reports these funds as state appropriations revenue in restricted current funds.

## NOTE 2 - STATE APPROPRIATIONS (Continued)

Certain of the University's payroll expenditures are funded from State General Fund appropriations. The "state appropriations receivable" reported in unrestricted current funds represents monies due from the State General Fund for applicable University personal services and employer contributions expenditures accrued at June 30 but paid in July from 1999-2000



appropriations. State law provides for such payroll costs to be paid from the next year's appropriations.

The University was allocated approximately \$1,065,400 of Education Improvement Act Funds for the University's Teacher Recruitment Program. These funds are reported as state grants and contracts revenue in restricted current funds. The University was also allocated approximately \$253,100 for its EIA funded Math and Science Program from the State Department of Education. These funds are reported as state grants and contracts revenue in the restricted current funds.

### NOTE 3 - STATE CAPITAL IMPROVEMENT BONDS

In 1998 and in prior years, the State authorized funds for improvements and expansion of University facilities using the proceeds of state capital improvement bonds. As capital projects are authorized by the State Budget and Control Board, the bond proceeds are allocated to the projects. When the funds are authorized, the University records the proceeds as revenue in the unexpended plant funds. These authorized funds can be requested as needed once State authorities have given approval to begin specific projects. The total balance receivable for the undrawn portions of the authorizations is reported in the balance sheet as "capital improvement bond proceeds receivable."

A summary of the activity in the balances available from these authorizations during the year ended June 30, 1999, follows:

Act	Total <u>Authorized</u>	Amount Drawn in <u>Prior Years</u>	Amount Drawn in Fiscal Year Ended <u>June 30, 1999</u>	Balance Authorized <u>June 30, 1999</u>
646 of 1978	\$ 269,750	\$ 269,676	\$ -	\$ 74
538 of 1986	3,558,000	3,555,364	-	2,636
522 of 1992	15,272,000	11,336,306	3,935,694	-
111 of 1997	6,750,000	-	3,402,710	3,347,290
<b>Total</b>	<u>\$25,849,750</u>	<u>\$15,161,346</u>	<u>\$ 7,338,404</u>	<u>\$ 3,350,000</u>

The University is not obligated to repay these funds to the State. The amount authorized in 1997 is for additional construction of the Sims Science Building. Funding is available as expenditures are made.

### NOTE 4 - ACCOUNT RECEIVABLE - OTHER RECEIVABLES

Other receivables as of June 30, 1999, is summarized as follows:

Contract Courses	\$ 68,863
Conference Center	48,714

Other	43,259
Total	<u>\$ 160,836</u>

The capital project funds receivable represents the remaining balance of \$775,000 in capital reserve funds granted in fiscal 1999 for the acquisition of scientific equipment.

#### NOTE 5 - BONDS PAYABLE

At June 30, 1999, bonds payable consisted of the following:

	<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>June 30, 1999 Balance</u>	<u>2000 Maturities</u>
State Institution Bonds				
Series 1991F	5.8-6.1%	3-1-01	\$ 240,000	\$ 115,000
Series 1993A	4.1-5.2%	3-1-08	1,950,000	175,000
Auxiliary Facility				
Revenue Bonds	5.47%	11-1-09	701,797	51,045
Amount Reported in Investment in Plant Funds			<u>\$ 2,891,797</u>	<u>\$ 341,045</u>

The various bond indentures restrict the use of particular revenue sources. State institution bonds are general obligation bonds of the State backed by the full faith, credit, and taxing power of the State. Receipts from tuition, matriculation fees, and other fees legally designated solely for the purpose of debt retirement are recorded directly in the retirement of indebtedness subgroup of the plant funds group. Tuition and fees paid to the University are restricted up to the amount of annual debt requirements for the payment of principal and interest on state institution bonds.

Revenue received for dormitory and student housing is restricted, up to the amount of annual debt requirements, for the payment of principal and interest on student and faculty housing revenue bonds. The auxiliary facility revenue bond covenants require the University pledge the revenues or the net revenues of the bookstore for the payment of principal and interest. The auxiliary enterprises revenues restricted for debt retirement are reflected as mandatory transfers from unrestricted current funds to the retirement of indebtedness subgroup of the plant funds group.

#### NOTE 5 - BONDS PAYABLE (Continued)

During fiscal 1998, the University issued State Auxiliary Facility Revenue Bonds totaling \$810,000. Related bond issue costs were expended as incurred as they were not material. The

proceeds of these bonds were used to purchase an off-campus bookstore. Bond principal and interest are payable semiannually.

Amounts including interest required to complete payment of the State Auxiliary Facility Revenue Bond obligations as of June 30, 1999, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 51,045	\$ 37,700	\$ 88,745
2001	53,876	34,869	88,745
2002	56,863	31,882	88,745
2003	60,016	28,729	88,745
2004	63,344	25,401	88,745
2005 through 2010	416,653	71,443	488,096
Total obligations	<u>\$ 701,797</u>	<u>\$ 230,024</u>	<u>\$ 931,821</u>

During fiscal 1991 and 1993, the University issued State Institution bonds in the amounts of \$1,000,000 and \$2,815,000 respectively. Related bond issue costs were expended as incurred as they were not material. The proceeds of these bonds were used to make renovations, improvements, and additions to and furnish University facilities.

The bond documents outline certain covenant terms to secure the bonds. For the State Institution bonds the University must maintain its tuition rates and charges at amounts necessary to maintain certain specified earning levels. For the Auxiliary Facility Revenue Bonds and the State Institution bonds, the University must generate net revenues available for debt service of not less than 125% and 100%, respectively, of debt service payments due in each bond year. State Institution bond covenants require tuition fees sufficient to pay bonds. The University is required to revise the schedule of tuition fees whenever necessary to provide the annual principal and interest requirements of all state institution bonds. There are no requirements for sinking fund contributions.

Beginning March 1, 2003, the State Institution bonds may be redeemed at a premium prior to mandatory redemption and final maturities at the option of the State. The redemption prices for these Bonds range from 102 % in 2002 to 100 % in 2004.

There are no other relevant bond covenants or restrictions and there have been no violations of the terms outlined above during fiscal 1999.

All of the University's State Institution bonds and Student and Faculty Housing Revenue bonds are payable in annual installments with semiannual interest payments.

**NOTE 5 - BONDS PAYABLE (Continued)**

Amounts including interest required to complete payment of the State Institution bond obligations as of June 30, 1999, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
-----------------------------	------------------	-----------------	--------------

2000	\$ 290,000	\$ 110,140	\$ 400,140
2001	310,000	95,540	405,540
2002	190,000	79,590	269,590
2003	205,000	70,660	275,660
2004	210,000	60,820	270,820
2005 through 2008	985,000	130,630	1,115,630
Total Obligations	\$ 2,190,000	\$ 547,380	\$ 2,737,380

---



---

During the year ended June 30, 1999, the University made state institution bond principal payments of \$275,000. It also reported interest expenditures of \$123,643 and \$450 of executory fee expenditures related to these bonds.

During the year ended June 30, 1999, the University made auxiliary facility bond principal payments of \$48,364. It also reported interest expenditures of \$40,381 and \$1,600 of executory fee expenditures to these bonds.

During the year ended June 30, 1999, the University made student and faculty housing revenue bond principal final payments of \$300,000. It also reported interest expenditures of \$25,500 and \$751 of executory fee expenditures related to these bonds.

The issuance of \$11,000,000 of student housing revenue bonds has been approved by the State of South Carolina Budget and Control Board.

#### **Debt Service Limitation On State Institution Bonds**

S.C. Code of Laws Section 59-107-90 states that the maximum amount of annual debt service on state institution bonds for each institution shall not exceed ninety percent of the sums received from tuition fees (as defined by Code Section 59-107-30) for the preceding fiscal year. Tuition fees for the fiscal year ended June 30, 1998, were \$659,985, which results in a legal annual debt service limit at June 30, 1999, of \$593,987.

#### **NOTE 6 - NOTES PAYABLE**

At June 30, 1999, notes payable consisted of the following:

<u>Interest Rates</u>	<u>Maturity Dates</u>	<u>June 30, 1999 Balance</u>	<u>2000 Maturities</u>
---------------------------	---------------------------	----------------------------------	----------------------------

State of South Carolina

Note (Athletic  
Facilities) Series

1981	6.50%	1-1-06	\$ 1,185,154	\$ 138,608
Bank Note (8/96)	5.05%	8-1-01	250,708	97,361
Total			<u>\$ 1,435,862</u>	<u>\$ 235,969</u>

A special student fee and a special admissions fee on all paid admissions to the athletic facilities are restricted to the payment of principal and interest on the athletic facilities note and are recorded in student tuition and fees revenues in the retirement of indebtedness plant funds subgroup. Interest earnings are also used for the debt service of the athletic facilities note. The bank notes will be repaid from available unrestricted current funds revenues.

Proceeds from the bank note of \$476,000, dated October 25, 1996, were used to purchase combination microwave /refrigerator units for dormitory use. The note is collateralized by the units which are recorded in the investment in plant funds subgroup as equipment and valued at approximately \$499,700. The note requires the University to pay all insurance, property taxes, if any, and to maintain the equipment in good working order. Student housing fees in excess of that required to make principal and interest payments on the student and facility housing revenue bonds are used to make payments on this bank note.

The athletic facilities note and the bank notes are payable in semiannual and annual installments, respectively, plus interest. Amounts including interest required to complete payment of the note obligations as of June 30, 1999, are as follows:

**Athletic Facilities Note**

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 138,608	\$ 74,819	\$ 213,427
2001	147,764	65,663	213,427
2002	157,525	55,902	213,427
2003	167,930	45,497	213,427
2004	179,023	34,404	213,427
2005 through 2006	394,304	32,547	426,851
Total Obligations	\$ 1,185,154	\$ 308,832	\$ 1,493,986

**NOTE 6 - NOTES PAYABLE (Continued)**

**Bank Notes**

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 97,482	\$ 11,433	\$ 108,915

2001	102,467	6,448	108,915
2002	50,759	1,275	52,034
<hr/>			
Total Obligations	\$ 250,708	\$ 19,156	\$ 269,864

The University reported principal and interest expenditures of \$130,019 and \$83,407, respectively, on the athletic facilities note in fiscal year 1999. These expenditures are reported in the retirement of indebtedness plant fund subgroup. On the bank notes, the University reported fiscal year 1999 principal and interest expenditures of \$92,611 and \$16,243, respectively, in the applicable functional expenditure categories of the unrestricted current funds.

The issuance of \$2,500,000 in athletic facilities notes has been approved by the State of South Carolina Budget and Control Board with the proceeds to be used to payoff the existing note and to make improvements to the coliseum and the baseball stadium.

#### **NOTE 7 - LEASES**

The University is obligated under various operating leases for the use of real property (land), automobiles, and other equipment. Certain of these leases have terms subject to renewal annually or have expiration dates in 2000 or 2001. In addition, the University is obligated under a capital lease for the acquisition of equipment.

Future commitments for capital leases and for operating leases having remaining noncancelable terms in excess of one year as of June 30, 1999 were as follows:

<u>Year Ending June 30,</u>	<u>Capital Leases</u>	<u>Operating Leases</u>
	<u>Equipment</u>	<u>Equipment</u>
2000	\$ 37,800	\$ 33,859
2001	37,800	12,500
2002	37,800	-
2003	37,800	-
	<hr/>	<hr/>
Total Minimum Lease Payments	151,200	\$ 46,359
	<hr/>	<hr/>
Less: Interest	12,071	
	<hr/>	
Principal Outstanding/ Present Value of Net Minimum Payments	\$ 139,129	

#### **NOTE 7 - LEASES (Continued)**

##### **Capital Leases**

During the current fiscal year, the University entered into a capital lease for a voice processing system in the total amount of \$168,484. The capital lease is payable in monthly installments from unrestricted current funds resources, has a term expiring in June 2003 and the equipment

collateralizes the lease liability. Capital lease expenditures for fiscal year 1999 were \$34,652, of which \$5,297 represented interest at a rate of 4.14%.

### **Operating Leases**

During fiscal 1998, the University entered into a noncancelable operating lease for five vehicles having a remaining term of more than one year.

During fiscal 1997, the University entered into a noncancelable operating lease for postage related equipment having a remaining term of more than one year. The leases do not provide for rate escalation or renewal options. In the normal course of business, operating leases are generally renewed or replaced by other leases generally payable on a monthly basis.

Total operating lease expenditures in 1999 were \$6,000 for real property and \$261,979 for equipment. The University reports these costs in the applicable current funds functional expenditure categories.

The University leased a computer terminal from The South Carolina Law Enforcement Division. The lease term is month-to-month and requires annual lease payments of \$2,149.

### **NOTE 8 - INSTALLMENT NOTE PAYABLE**

The University was obligated under an installment purchase agreement dated October 1991, for the acquisition of computer equipment. The University entered into an agreement with the State Budget and Control Board - Division of General Services under its Installment Purchases Program for the \$2 million loan. The State Treasurer's Office now handles the program and collection of this loan.

The University made five annual payments of principal plus interest at 7.5% on the \$2 million obligation. The first payment was due on the July 1 following the final drawdown from the State. The University received the final draw in August 1993. The University reported principal payments of \$459,841 and interest expenditures of \$34,488 in fiscal year 1999 in the current funds functional expenditure categories. The note obligation including interest was repaid in fiscal 1999.

Repayments were made from unrestricted current funds from appropriations, tuition, and fees.

### **NOTE 8 - INSTALLMENT NOTE PAYABLE (Continued)**

In the prior year, the University made borrowings under the State Treasurer's Office's Master Lease Program. At June 30, 1999, the University had bank notes payable outstanding, as follows:

<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance</u>
----------------------	----------------------	----------------

Note dated June 1, 1998	4.69%	June 1, 2002	\$ 490,826
Note dated June 1, 1998	5.11%	June 1, 2005	789,612
Note dated June 1, 1998	5.11%	June 1, 2005	622,651

Proceeds from the original bank note of \$640,000, bearing interest at 4.69%, were used to purchase central academic computing equipment. The note is collateralized by the equipment which is recorded in the investment in plant funds subgroup as equipment and valued at approximately \$640,000. The note requires the University to pay all insurance, property taxes, if any, and to maintain the equipment in good working order.

Proceeds from the original bank notes of \$899,750 and \$709,500, with outstanding balances at June 30, 1999, of \$789,612 and \$622,651, respectively, were used to acquire campus-wide telephone system equipment and voice and data cabling equipment, respectively. The notes are collateralized by the respective equipment which is recorded in the investment in plant funds subgroup as buildings and valued at approximately \$864,000 and \$685,000, respectively.

The notes are payable in annual installments plus interest. Amounts including interest required to complete payment of the bank note obligations as of June 30, 1999, are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2000	\$ 363,223	\$ 95,186	\$ 458,409
2001	381,128	77,282	458,410
2002	399,916	58,491	458,407
2003	240,444	46,803	287,247
2004	252,731	26,489	279,220
2005	265,647	13,575	279,222
Total Obligations	\$ 1,903,089	\$ 317,826	\$ 2,220,915

The balance on the bank note obligations as of June 30, 1998, totaled \$2,249,250 and was reported in the Installment Purchase Program account in the investment in plant fund subgroup.

Payments for fiscal year 1999 were \$458,410, of which \$112,249 represented interest, and was reported as unrestricted current fund expenditures.

#### **NOTE 9 - NONMANDATORY INTERFUND TRANSFERS**

Tuition, fees, and revenues pledged for debt service when collected remain in the debt service accounts of the retirement of indebtedness plant funds subgroup until they are transferred by the State Treasurer into a general capital improvements funding account which the University reports in the unexpended plant funds subgroup. In fiscal year 1999, the University transferred \$297,978 for that purpose which is reported as a nonmandatory transfer and the unexpended



balance in the general capital projects funding account of the unexpended plant funds subgroup is reported in unrestricted fund balance. Unexpended balances of specific capital project accounts are reported as restricted fund balances in the unexpended plant funds subgroup.

Debt service funds become available for transfer because of the maintenance of minimum balances including reserves for payment of debt service and facility operating costs as required by bond indentures and law. For state institution bonds issued by the State of South Carolina on behalf of the University, the State Treasurer automatically transfers qualified funds. As needed, monies are transferred from the general capital funding account to specific capital projects accounts. For the most part, once projects have been approved by the State Budget and Control Board, institutions are authorized to make transfers for specific projects with notification to the State Treasurer.

During the current year, the University transferred \$295,999 within the unexpended plant funds subgroup from the general funding accounts to finance specific capital projects.

In addition, during fiscal year 1999, the University recorded operating interfund transfers. A summary of all nonmandatory transfers is as follows:

..... <u>FUND</u> .....			
<u>From</u>	<u>To</u>	<u>Amount</u>	<u>Purpose</u>
Retirement of Indebtedness Plant	Unrestricted Current	\$ 4,963,907	Funding for housing operating costs from funds initially pledged for debt service
Unrestricted Current	Unexpended Plant	500,000	Funding for renovations

#### **NOTE 10 - PENSION PLANS**

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

#### **NOTE 10 - PENSION PLANS (Continued)**

The majority of employees of the University are covered by a retirement plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code

of Laws. This plan provides annuity benefits as well as disability, cost-of-living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under the SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 30 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82% of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of fifteen years credited service. Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service. A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6% of all compensation. Effective July 1, 1998, the employer contribution rate became 9.58% which included a 2.03% surcharge to fund retiree health and dental insurance coverage. The University's actual contributions to the SCRS for the years ending June 30, 1999, 1998, and 1997 were \$1,369,715, \$1,397,917, and \$1,402,708, respectively, and equaled the required contributions of 7.55% (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$27,213 in the current fiscal year at the rate of .15% of compensation. In addition, the University paid the employer's 7.55 percent share (\$323) of pension costs for employees on educational leave with employees paying \$257.

The South Carolina Police Officers Retirement System (PORS) is a cost-sharing multiple-employer defined benefit public employee retirement system. Generally all full-time employees whose principal duties are the preservation of public order or the protection or prevention and control of property destruction by fire are required to participate in and contribute to the System as a condition of employment. This plan provides annuity benefits as well as disability and group life insurance benefits to eligible employees and retirees. In addition, participating employers in the PORS contribute to the accidental death fund which provides annuity benefits to beneficiaries of police officers and firemen killed in the actual performance of their duties. These benefits are independent of any other retirement benefits available to the beneficiary.

#### **NOTE 10 - PENSION PLANS (Continued)**

Employees covered under PORS are eligible for a monthly pension payable at age 55 with a minimum of five years service or twenty-five years credited service regardless of age. In addition, employees who have five years of credited service prior to age 55, can retire yet defer receipt of benefits until they reach age 55. A member is vested for a deferred annuity with five years service. The benefit formula for full benefits effective since July 1, 1989, for the PORS is

2.14% of the employee's average final salary multiplied by the number of years of credited service. Disability annuity benefits and the group-life insurance benefits for PORS members are similar to those for SCRS participants. Accidental death benefits provide a monthly pension of 50% of the member's budgeted compensation at the time of death.

Since July 1, 1988, employees participating in the PORS have been required to contribute 6.5% of all compensation. Effective July 1, 1998, the employer contribution rate became 12.33% which, as for the SCRS, included the 2.03% surcharge. The University's actual contributions to the PORS for the years ending June 30, 1999, 1998, and 1997 were \$33,646, \$34,671, and \$34,720, respectively, and equaled the required contributions of 10.3% (excluding the surcharge) for each year. Also, the University paid employer group-life insurance contributions of \$653 and accidental death insurance contributions of \$653 in the current fiscal year for PORS participants. The rate for each of these insurance benefits is .20% of compensation.

The amounts paid by the University for pension, group-life insurance, and accidental death benefits are reported as employer contributions expenditures within the applicable current funds' functional expenditure categories to which the related salaries are charged.

Article X, Section 16 of the South Carolina Constitution requires that all State operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates to SCRS and PORS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The Systems do not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the University's liability under the plans is limited to the amount of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the University's liability under the pension plans is limited to the contribution requirements for the applicable year from amounts appropriated therefor in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the University recognizes no contingent liability for unfunded costs associated with participation in the plans.

#### **NOTE 10 - PENSION PLANS (Continued)**

At retirement, employees participating in the SCRS or PORS may receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

Certain State employees may elect to participate in the optional Retirement Program (ORP), a defined contribution plan. The ORP was established in 1987 under Title 9, Chapter 17, of the

South Carolina Code of Laws. The ORP provides retirement and death benefits through the purchase of individual fixed or variable annuity contracts which are issued to, and become the property of, the participants. The State assumes no liability for this plan other than for payment of contributions to designated insurance companies.

ORP participation is limited to faculty and administrative staff of the State's four-year higher education institutions who meet all eligibility requirements for membership in the SCRS. To elect participation in the ORP, eligible employees must irrevocably waive SCRS membership within their first ninety days of employment.

Under State law, contributions to the ORP are required at the same rates as for the SCRS, 7.55% plus the retiree surcharge of 2.03% from the employer in fiscal year 1999.

Certain of the University's employees have elected to be covered under optional retirement plans. For the fiscal year, total contribution requirements to the ORP were \$486,574 (excluding the surcharge) from the University as employer and \$386,682 from its employees as plan members. In addition, the University paid \$9,667 for group-life insurance coverage for these employees. All amounts were remitted equally to the respective insurance companies and to the Retirement Division of the State Budget and Control Board for distribution to the respective annuity policy providers. The obligation for payment of benefits resides with the insurance companies.

Of the University's total fiscal year 1999 personnel service expenditures of \$28,603,747 total covered payroll for the SCRS, PORS and ORP plans were \$18,141,924, \$326,657, and \$6,444,691, respectively. The University's 1999 contributions represented less than 1% of total SCRS and PORS contributions and approximately 5% of ORP contributions. The ratios of the employer and employee contributions to the ORP to the University's related 1999 covered payroll were 7.55% and 6%, respectively.

#### **NOTE 11 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS**

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to certain active and retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the University are eligible to receive these benefits. The State provides postemployment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirements, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits.

#### **NOTE 11 - POSTEMPLOYMENT AND OTHER EMPLOYEE BENEFITS (Continued)**

These benefits are provided through annual appropriations by the General Assembly to the University for its active employees and to the State Budget and Control Board for all participating State retirees except the portions funded through the pension surcharge and provided from other applicable fund sources of the University for its active employees who are not funded by State

General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 19,170 State retirees meet these eligibility requirements.

The University recorded employer contributions expenditures within the applicable functional expenditure categories for these insurance benefits for active employees in the amount of \$1,588,152 for the year ended June 30, 1999. As discussed in Note 10, the University paid \$505,739 applicable to the 2.03% surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits.

Information regarding the cost of insurance benefits applicable to University retirees is not available. By State law, the University has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from Systems' earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS and PORS benefits.

#### **NOTE 12 - DEFERRED COMPENSATION PLANS**

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the University have elected to participate. The multiple-employer plans, created under Internal Revenue Code Sections 457, 401(k), and 403(b), are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. The State has no liability for losses under the plans. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw contributions prior to termination if they meet requirements specified by the applicable plan.

On August 20, 1996, the provisions of Internal Revenue Code Section 457 were amended by adding subsection (g). That subsection provides that new plans will not be considered eligible plans unless all assets and income of the plans are held in trust for the exclusive benefit of the participants and their beneficiaries. Existing plans also must comply with this requirement by January 1, 1999. South Carolina's plan adopted this change effective July 24, 1998.

#### **NOTE 13 - INVENTORIES**

Inventories for internal use are valued at cost. Inventories for resale are valued at the lower of cost or market. The following is a summary by inventory category of cost determination method and value at June 30, 1999:

<u>Category</u>	<u>Method</u>
-----------------	---------------

Central Supply	First-in, first-out	\$ 178,032
Fuels	First-in, first-out	68,169
Printing Services	First-in, first-out	21,051
		<u>\$ 267,252</u>

#### NOTE 14 - INTERFUND LIABILITIES AND BORROWINGS

For the most part, the University operates out of one cash account which is recorded in unrestricted current funds. At fiscal year-end, entries are made to properly reflect cash balances by fund group and subgroup and to report deficit cash balances in the State's internal cash management pool accounts by fund. Deficits may occur due to grants funded on a reimbursement basis. In addition, during the year, certain interfund borrowings occurred. All of the amounts are payable within one year without interest.

Individual interfund balances outstanding at June 30, 1999, were as follows:

	<u>Receivable</u>	<u>Payable</u>
Unrestricted Current Funds:		
Restricted Fund	\$ 450,000	\$ -
Restricted Current Funds:		
Unrestricted Current Funds	-	450,000
Totals	<u>\$ 450,000</u>	<u>\$ 450,000</u>

#### NOTE 15 - STUDENT LOANS RECEIVABLE AND ACCOUNTS RECEIVABLE

With minor exceptions, allowances for losses for student loan receivables and various accounts receivable are established based upon actual losses experienced in prior years and evaluations of the current loan and account portfolios. At June 30, 1999, the allowances for student loans receivable in loan funds and student accounts receivable in unrestricted current funds are valued at \$89,139 and \$53,491, respectively.

#### NOTE 16 - CONSTRUCTION COSTS AND COMMITMENTS

The University has obtained the necessary funding for the acquisition, construction, renovation, and equipping of certain facilities which will be capitalized in the applicable plant asset categories upon completion. Management estimates that the University has sufficient resources available and/or future resources identified to satisfactorily complete the construction of such projects which are expected to be completed in varying phases over the next two years at an estimated total cost of approximately \$19,270,000. Of the total cost, approximately \$3,008,661 is unexpended at June 30, 1999. Of the total expended through June 30, 1999, the University has not capitalized substantially complete and in use any projects in the applicable plant asset

categories. Of the unexpended balance at June 30, 1999, the University had remaining commitment balances of approximately \$1,833,136 with engineering firms, construction contractors, and vendors related to these projects.

Major capital projects at June 30, 1999, which constitute construction in progress that are to be capitalized when completed are listed below.

<u>Project Title</u>	<u>Estimated Cost</u>	<u>Amount Expended</u>
Math and Science Complex	\$19,260,000	\$13,180,623
American Legion Preliminary Land Acquisition	10,000	3,000
Total	<u>\$19,270,000</u>	<u>\$13,183,623</u>

The amount expended includes both noncapitalized project expenditures and capitalized costs. At June 30, 1999, the net difference between expenditures on these projects and construction in progress equals \$205,345.

The University anticipates funding these projects out of current resources, current and future bond issues, state capital improvement bond proceeds, private gifts, and student fees.

#### NOTE 17 - DEPOSITS

All deposits and investments of the University are under the control of the State Treasurer who, by law, has sole authority for investing State funds. Certain monies are deposited with or managed by financial institutions.

#### NOTE 17 - DEPOSITS (Continued)

The following schedule reconciles deposits and investments within the footnotes to the balance sheet amounts:

<u>Balance Sheet</u>	<u>Footnotes</u>
Cash and cash equivalents:	Cash on hand \$ 194,998
Current Funds:	Deposits held by State
Unrestricted \$ 4,818,283	Treasurer 6,807,183
Restricted 34,984	Escrow with bank 34,135
Loan Funds 127,869	Loan participation deposit 25,000

Endowment and Similar Funds	683,335	
Plant Funds:		
Unexpended	899,534	
Retirement of indebtedness	474,927	
Agency Funds	22,384	
Totals	<u>\$ 7,061,316</u>	<u>\$ 7,061,316</u>

The escrow with bank balance of \$34,135 is included in unexpended plant funds and represents funds escrowed as part of installment note payable. (See Note 8)

### **Deposits Held by State Treasurer**

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At June 30, 1999, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's internal cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agents in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

### **Other Deposits**

The University's other deposits at year-end were entirely covered by federal depository insurance or by collateral held by the University's custodial bank in the University's name. Loan funds includes \$25,000 restricted cash for a loan participation deposit.

## **NOTE 18 - ENDOWMENT AND SIMILAR FUNDS**

The endowment and similar funds cash and cash equivalents are placed on deposit with the State Treasurer.

## **NOTE 19 - RELATED PARTIES**

Certain separately chartered legal entities whose activities are related to those of the University exist primarily to provide financial assistance and other support to the University and its educational program. They include the Winthrop University Foundation, the Alumni Association of Winthrop University, and the Winthrop University Eagle Club. The activities of these entities are not included in the University's financial statements. However, the University's statements include transactions between the University and these related parties.

In conjunction with its implementation of GASB Statement No. 14, management reviews its relationships with the entities described in this note. The University excludes these entities from the reporting entity because it is not financially accountable for them. As part of its affiliated



organizations project, the GASB is currently studying other circumstances under which organizations that do not meet the financial accountability criteria would be included in the financial reporting entity. Depending on the outcome of that project and other future GASB pronouncements, some or all of these parties may become component units of the University and/or part of the financial reporting entity.

The Winthrop University Foundation was incorporated November 8, 1973, under the laws of South Carolina as an educational and scientific eleemosynary foundation to establish and implement a program of fund-raising to assist in the expansion and improvement of the educational functions of Winthrop University. In the event of dissolution, the assets of the Foundation would be transferred to Winthrop University.

The Alumni Association of Winthrop University was incorporated June 4, 1929, under the laws of South Carolina as an educational, social, fraternal, and eleemosynary foundation to promote the growth, progress, and general welfare of Winthrop University. In the event of dissolution for any cause, the assets of the Association would be transferred to the Board of Directors of The Winthrop University Foundation for the use and benefit of Winthrop University. Effective July 1, 1992, the Association transferred restricted and endowed funds to the Foundation to be managed by it subject to all restrictions and conditions established by the donors of the fund. Effective for fiscal year 1994 and future years, the Association will be accounted for in the Foundation's financial statements as an Agency Fund.

The Foundation has agreed to establish an endowment account of \$500,000 for the benefit and use of the Association based on goals and a timetable to be determined, but not later than July 1, 2002. The balance of the endowment account at June 30, 1999, was \$60,000. The Association will have unrestricted use of all interest earned on this fund.

The Foundation funds the Association's annual operating budget which was \$83,000 for the year ended June 30, 1999. The Foundation administers the "Alumni Annual Giving Program."

#### **NOTE 19 - RELATED PARTIES (Continued)**

The Winthrop University Eagle Club (the Club) was incorporated May 16, 1978, under the laws of South Carolina as an educational, social, and fraternal eleemosynary organization to assist in encouraging the attendance at Winthrop University of prospective students who would be expected to contribute to intercollegiate athletics of the University and to provide financial aid for the advancement of intercollegiate athletics at Winthrop University. The assets of the Club are included in the assets of the Foundation for tax purposes; however, the Club retains full control over such assets.

Various transactions occur between the University and these related entities. The amounts receivable from the related parties have been separately disclosed in the unrestricted current

funds assets. The assets, liabilities, and financial operations of these organizations are not included in the accompanying financial statements of Winthrop University. During the year ended June 30, 1999, the University received approximately \$515,400 from the Foundation which was restricted for scholarships and which is reported as restricted current funds private gifts revenue and scholarship expenditures. The University also reports as unrestricted current funds approximately \$283,600 from the Foundation for alumni/development staff salaries and various unrestricted missions. Of this amount, \$57,649 is reported as unrestricted private gifts, grants and contracts revenue with the remaining amount reported as a contra expense in the unrestricted current fund as a reimbursement of alumni/development costs. The Foundation reimburses the University for various administrative costs. The \$63,968 amount is recorded as a receivable in the unrestricted current fund. Of this receivable, \$53,093 is a contra expense and \$10,875 is reported as revenue. The receivables from these organizations include fourth quarter reimbursements. The majority of the remaining receivables are for scholarships. The Foundation also functions as custodian for the Alumni Association's restricted and endowment funds investments. At June 30, 1999, the Foundation held \$226,011 for the Alumni Association. These funds are reported on the Foundation's audited financial statements as pooled investments, at cost, and deposits held in custody in agency funds.

#### **NOTE 20 - TRANSACTIONS WITH STATE ENTITIES**

The University has significant transactions with the State of South Carolina and various State agencies.

Significant revenues from Education Improvement Act funds of approximately \$244,000 were received from the South Carolina State Department of Education and are reported in state grants and contracts revenue in the restricted current funds. The \$244,000 in Education Improvement Act funds is primarily comprised of \$104,539 representing North Central Math/Science Hub funds and \$100,000 representing Child Abuse funds.

Services received at no cost from State agencies include maintenance of certain accounting records by the Comptroller General; banking functions from the State Treasurer; legal services from the Attorney General; and grants services from the Governor's office.

#### **NOTE 20 - TRANSACTIONS WITH STATE ENTITIES (Continued)**

Other services received at no cost from the various offices of the State Budget and Control Board include retirement plans administration, insurance plans administration, audit services, personnel management, assistance in the preparation of the State Budget, review and approval of certain budget amendments, procurement services, and other centralized functions.

The University had financial transactions with various State agencies during the fiscal year. Significant payments were made to divisions of the State Budget and Control Board for retirement and insurance plans contributions, surplus property disposal fees, insurance coverage, and interagency mail service. Significant payments were also made for unemployment and workers' compensation coverage for employees to the Employment Security Commission and State Accident Fund. The amounts of 1999 expenditures applicable to these transactions are not readily available.

## **NOTE 21 - CONTINGENCIES AND LITIGATION**

The various federal programs administered by the University for fiscal year 1999 and prior years are subject to examination by the federal grantor agencies. At the present time, amounts, which may be due federal grantors, if any, have not been determined but the University believes that any such amounts in the aggregate would not have a material adverse effect on the financial position of the University. Therefore, an estimated loss has not been recorded.

The University is from time to time involved in legal proceedings and claims from various parties arising in the normal course of business and covering a wide range of matters. Because, in the opinion of management and counsel, the risk of material loss in excess of insurance coverage for these proceedings is remote, the outcome of the legal proceedings is not expected to have a material adverse effect on the financial position of the University. Therefore, an estimated liability has not been recorded.

The University is a defendant in a lawsuit on behalf of one of its students for alleged injuries. The suit remains in the discovery phase since being filed in August 1998. As the claim falls within the coverage of applicable liability insurance, this claim should not materially affect the financial position of the University.

## **NOTE 22 - RISK MANAGEMENT**

### **Insurance Coverage**

The University is exposed to various risks of loss and maintains State or commercial insurance coverage for each of those risks. Management believes such coverage is sufficient to preclude any significant uninsured losses for the covered risks. There were no significant reductions in insurance coverage from coverage in the prior year. Settled claims have not exceeded this coverage in any of the past three years. The University pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered economic losses sustained during the policy period in accord with insurance policy and benefit program limits. Building losses in excess of 80% of replacement cost are not expected to be covered. For property losses and property-related torts, the University's deductible is \$250. For other torts there is no deductible.

### **NOTE 22 - RISK MANAGEMENT (Continued)**

State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of State employees for unemployment compensation benefits (Employment Security Commission);
2. Claims of covered employees for workers' compensation benefits for job related illnesses or injuries (State Accident Fund);
3. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and

4. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services.)

Employees elect health coverage through either a health maintenance organization or through the State's self-insured plan. All of the other coverages listed above are through the applicable State self-insured plan except dependent and optional life premiums are remitted to commercial carriers.

The University and other entities pay premiums to the State's Insurance Reserve Fund (IRF) which issues policies, accumulates assets to cover the risks of loss, and pays claims incurred for covered losses related to the following University assets, activities, and/or events:

1. Theft of, damage to, or destruction of assets;
2. Real property, its contents, and other equipment;
3. Motor vehicles and inland marine;
4. Torts;
5. Builders Risk;
6. Natural disasters; and
7. Medical professional liability against covered clinics and their employees.

The IRF is a self-insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, automobile liability, and medical professional liability insurance. The IRF's rates are determined actuarially. State agencies and other entities are the primary participants in the State's Health and Disability Insurance Fund and in IRF.

The University obtains coverage through a commercial insurer for employee fidelity bond insurance for all employees with access to any assets for losses arising from theft or misappropriation. The University also obtains director/officer liability coverage for all directors/officers for wrongful acts that may occur. Policy limit is \$2,000,000.

## **NOTE 22 - RISK MANAGEMENT (Continued)**

In addition, the University obtains through commercial insurers coverage for losses arising from the following activities:

1. Crime policy for theft, disappearance, and destruction that may occur during the two annual registration periods of 30 days each. Policy limit is \$570,000.
2. Coverage for students, teachers, and supervisors registered in the McFeat Early Childhood Program (nursery school, day care center, and kindergarten activities sponsored by the University). Policy limit for accidental medical payments is \$25,000.
3. Accident/sickness policies for athletes who are full-time students and for all participants of Winthrop University Academic Camps. Policy limit is \$25,000 for accidental medical and

\$10,000 for accidental death. This policy is intended to cover the deductible portion of NCAA coverage referred to below.

Included as part of its participation fees, the University receives accident insurance coverage for athletes participating in National Collegiate Athletic Association (NCAA) events.

The University has recorded insurance premium expenditures in the applicable functional expenditure categories of the current funds. These expenditures include, and the related liability has been recorded for, probable and reasonably estimable premium adjustments resulting from actual loss experience for workers' compensation coverage. The University is insured for such coverage under a retrospectively rated policy and premiums are accrued based on the ultimate cost of the experience to date of a group of entities.

In management's opinion, claim losses in excess of insurance coverage are unlikely and, if incurred, would be insignificant to the University's financial position. Furthermore, there is no evidence of asset impairment or other information to indicate that a loss expenditure and liability should be recorded at year-end. Therefore no loss accrual has been recorded.

### **Self-Insurance**

The University has not transferred the portion of the risk of loss related to insurance policy deductibles, unreported claims, underinsurance, and co-insurance to a State or commercial insurer. The University has not reported an estimated claims loss expenditure, and the related liability at June 30, 1999, based on the requirements of GASB Statement No. 10 and No. 30, which state that a liability for claims must be reported only if information prior to issuance of the financial statements indicates that it is probable that an asset has been impaired or a liability has been incurred on or before June 30, 1999, and the amount of the loss is reasonable estimable.

As described above, the University does not carry insurance coverage for building losses in excess of 80% of replacement cost and policy deductibles of \$250 per occurrence for property losses and property-related tort claims. In addition, complete building contents are not fully covered. The

building contents including equipment and supplies are insured for an amount based on the value of the equipment in the building.

### **NOTE 22 - RISK MANAGEMENT (Continued)**

The University's management believes for risks of loss the occurrence of which it considers a remote likelihood (i.e., total destruction of a building and all of its contents, including equipment and supplies) and for certain other risks (i.e., complete University shut down for an indeterminate amount of time due to an earthquake or other natural disaster), it is more economical to manage such risks internally and use a portion of the unrestricted fund balance and rely upon the state and federal government declaring an emergency situation to cover uninsured losses. No uninsured events relating to such self-insurance coverage occurred in fiscal year 1999.

### **NOTE 23 - FIXED ASSET CAPITALIZATION LIMIT**

In prior years, the University capitalized major additions to plant assets and qualifying equipment with a unit value in excess of \$500 and a useful life in excess of one year. Effective July 1, 1998, the University changed its equipment capitalization criteria by raising its valuation level to capitalize those items with a unit value in excess of \$5,000 and having an expected life in excess of one year. The statement of changes in fund balances reports a “reduction resulting from change in asset capitalization policy” deduction in the investment in plant funds subgroup to remove capitalized assets on hand at July 1, 1998, which did not meet the new capitalization limit.

#### NOTE 24 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS

Accounting principles includes not only accounting principles and practices but also the methods of applying them.

In prior years, the University reported interest receivable on student loans within the loan funds. Effective July 1, 1998, the University changed its method of reporting student loan interest to conform to the practice of all other public institutions within the State. This change in reporting resulted in a decrease in loan fund assets and loan fund balance as of June 30, 1999 of \$68,358. Loan interest receivable as of June 30, 1998, 1997, and 1996 was reported as \$62,322, \$54,903 and \$50,895, respectively.

#### NOTE 24 - ACCOUNTING CHANGES AND PRIOR PERIOD ADJUSTMENTS (Continued)

Effective July 1, 1997, the University adopted Governmental Accounting Standards Board (GASB) Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools. This statement requires that most investments of governmental entities be stated at fair value rather than at cost. The University corrected a mathematical error in the reported fair values of investments in prior years by restating beginning fund balances as of July 1, 1998, which are disclosed in the following schedule.

As	Restatement	As
Previously		

	Reported	Adjustment	Restated
Unrestricted Current Funds:			
Cash and cash equivalents	\$ 2,749,502	\$ (19,058)	\$ 2,730,444
Fund balance	1,391,326	(19,058)	1,372,268
Restricted Current Funds:			
Cash and cash equivalents	20,696	(4,362)	16,334
Fund balance	204,897	(4,362)	200,535
Unexpended Plant Funds:			
Cash and cash equivalents	1,378,643	(9,746)	1,368,897
Fund balance	11,062,263	(9,746)	11,052,517
Retirement of Indebtedness/Plant Funds:			
Cash and cash equivalents	1,289,628	(25,649)	1,263,979
Fund balance	766,376	(25,649)	740,727

Interest income for the year ended June 30, 1999 was increased by the respective fund adjustment amounts noted above for the unrestricted current, unexpended plant and retirement of indebtedness plant funds while endowment income was increased \$4,362 in the restricted current funds.

#### NOTE 25 - SALE OF LAND

Surplus real property with an estimated fair value of approximately \$1,565,000 has been approved for sale by the State of South Carolina Budget and Control Board with the proceeds to be retained by the University and used for the acquisition of land adjacent to the main campus.

THESE NOTES ARE AN INTEGRAL PART OF THE ACCOMPANYING FINANCIAL STATEMENTS

### III. REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED)



#### IV. WINTHROP UNIVERSITY

##### REQUIRED SUPPLEMENTARY INFORMATION (UNAUDITED) JUNE 30, 1999

---

###### YEAR 2000 (UNAUDITED)

The year 2000 ("Y2K") issue arises because most computer software programs allocate two digits to the *Year* date field on the assumption that the first two digits will be 19. Without reprogramming, such programs will interpret, for example, the year 2000 as the year 1900. Also, some programs may be unable to recognize that the year 2000 is a leap year.

The year 2000 issue may affect electronic equipment containing computer chips that have date recognition features - such as environmental systems and vehicles - as well as computer software programs. In addition, the Y2K issue affects not only computer applications and equipment under the University's direct control but also the systems of other entities with which the University transacts business. The University's computing systems fall under three broad categories: Personal (or desktop and laptop) Computing, Academic Computing, and Administrative Computing. Furthermore, the Y2K may affect outside agency infrastructure support such as electricity, telecommunications, and Internet routing. Some of the University's systems/equipment affected by the Y2K issue are critical to the continued and uninterrupted operations of the University.

Because of the unprecedented nature of the Y2K issue, its effects and the success of related remediation efforts will not be fully determinable until the year 2000 and thereafter. Management cannot assure that the University is or will be Y2K ready, the University's remediation efforts will be successful in whole or in part, or that parties with whom the University does business will be Y2K ready.

The University has used Information Technology and other administrative staff, as well as other state agency employees and outside vendor contractors in preparation for year 2000. The University received and implemented Y2K compliant updated software from its vendors. A project plan for remediation of the University's information systems, including timelines, has been developed, costs determined and resources allocated. The University's Y2K plan includes multiple review steps to achieve compliance in all critical areas. Testing of all remediated systems is part of the remediation project plan. An additional \$30,000 is funded in fiscal 2000 to support the involvement of consultants, as well as to provide the replacement or upgrade of computer hardware and computer applications. The University's management view is that Y2K funding is appropriate for the balance of the initiative.

(Continued) - 1.

The University's mission - critical systems consist of a financial accounting system, a human resource system and a student records system. Non mission - critical systems include an alumni and foundation system and a system for report writing applications.

Work to address the year 2000 issue with respect to each system critical to conducting operations falls predominantly within one of the following stages of work:

1. Awareness stage - understanding the Y2K problem; obtaining support for time and resources; establishing a budget and project plan for dealing with the Y2K issue.
2. Assessment stage - Identifying the systems and components for which Y2K work is needed; determining time horizon to failure; determining renovation plan or disposition schedule.
3. Remediation stage - Making changes to systems/equipment.
4. Validation/testing stage - Validating and testing changes that were made during the remediation stage.

In addition, electronic data exchanges with external agencies must be examined, renovated and tested to assure continued reliability and compatibility.

As of September 23, 1999, the University had completed all stages with respect to all mission-critical and non mission-critical hardware and software except for the validation/testing stage of the non mission - critical system for report writing applications which was over 90% complete.

The University has prepared contingency plans in the event of computer systems potentially affected by the Y2K and other possible interruptions to the University's business, such as service failures from outside agencies.

#### YEAR 2000 READINESS DISCLOSURE

Any and all Y2K product or service readiness information disseminated by the University is designated as a "Year 2000 Readiness Disclosure" as defined in the *Year 2000 Information and Readiness Disclosure Act of 1998* (Public Law 105-271, 112 Stat. 2386) (the "Act"). This designation applies to information, statements, and materials furnished by the University from its websites or in any tangible form. All Y2K readiness information regarding non-Winthrop products, services, and Y2K processing capabilities are "republications" under the Act, and all such republications are based solely on information provided to or obtained by the University from third-party suppliers, owners, vendors, licensors, or manufacturers of those services or products. The University has not independently verified the content or accuracy of any republication, and the University expressly disclaims any responsibility or liability for damages which may result from the information contained in such republications.

(Concluded) - 2